

OPEN MEETING ITEM



0000121251

JIM IRVIN
COMMISSIONER-CHAIRMAN
RENZ D. JENNINGS
COMMISSIONER
CARL J. KUNASEK
COMMISSIONER

ARIZONA CORPORATION COMMISSION

RECEIVED
AZ CORP COMMISSION

DIRECT LINE: 602-542-3933
FAX: 602-542-5560
E-MAIL: CKUNASEK@CC.STATE.AZ.US

AUG 3 3 30 PM '98

August 3, 1998

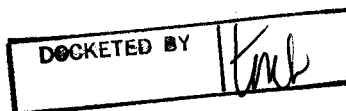
DOCUMENT CONTROL

Arizona Corporation Commission
DOCKETED

AUG 03 1998

RE-00000C-94-0165

Commissioner-Chairman Jim Irvin
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007



Dear Chairman Irvin,

I wanted to take time to convey some of my thoughts and concerns about the deregulation efforts that this Commission has made thus far. Let me say at the outset, that while I have not been happy with the process these past few months, I am pleased with the amount of effort that has been given to try and move this very complicated process forward.

My commitment to deregulating Arizona's power generation market and belief that it will benefit all Arizona citizens has grown stronger in the past four years. My guiding principle is that all Arizona citizens must have the opportunity to benefit from this change in market structure. We must preserve the finer aspects of the regulated market (reliability and certainty of delivery) and institute a set of rules that provides choice for all Arizonans on a reasonable time line and in an orderly fashion.

First, I think it important for all parties concerned to remember why it is we began this effort three years ago. Eighty years of regulation has delivered, for the most part, reliable electricity at what many believe were reasonable prices at the time. However, there is a view, which I share, that prices in many instances have been too high due to inefficiencies and improper incentives which encourage unneeded investment. I also believe that in a deregulated marketplace, ratepayers will benefit by not bearing the risk associated with the construction of new plant facilities. For these reasons, I support moving to a deregulated generation market with an emphasis on market based pricing.

Second, and I want to make clear, the threshold test for my support is that all ratepayers in all classes must have the opportunity to benefit from price reductions and service quality enhancements. After all, there is no reason to change the current structure if lower rates and better service quality levels cannot be achieved. I believe they can.

However, I do have my concerns. While I too feel a certain sense of urgency to complete this initial phase, I want to make sure that what we do is manageable, makes sense, does not threaten the reliability of the system, and is simple for consumers to understand. I want to make sure that we do not attempt to do too much too soon. We must crawl, walk and then run.

In December of 1996, this Commission moved forward the initial draft of rules which at the time were defined as a "framework" for competition. Though there was much in the rule that I did not agree with, I voted in support of the proposal with an understanding that the rules would be revised, but only after a thorough analysis which would include economic impact assessments as well as an open process attended by the commissioners to advance and finalize a complete set of rules.

At the time, I believed that the issues could be resolved well before a January 1, 1999 start date and must confess that at the time, I believed that a flash cut to competition for all classes of customers could be accomplished. I no longer share this view.

In the past year and a half this commission conducted numerous workshops and held hearings on stranded investment, which demonstrated the complexities and uncertainties about this part of the deregulation effort. In addition, a number of states that moved rapidly towards competition have begun to reverse decisions and slow their process in recognition that many mistakes, sometimes costly mistakes, have been made in the zeal to inject competition into one of the last vestiges of a monopolistic regime.

Today, I find myself in the odd position of advocating for a slower, more ordered and deliberate approach to phasing in competition for generation in our state.

Perhaps the best way to share my perspective with you is to identify what I believe is essential for customer classes both now and over the long run. I believe we all recognize that large customers, those, who use power in excess of one megawatt, are today clamoring for open access. These users are sophisticated, have other options, are well represented and understand the changing marketplace. Smaller consumers, primarily residential and low income consumers are more concerned with price certainty, do not understand the changing marketplace, lack sophistication and need time to develop the skills and understanding necessary to make informed decisions in a competitive arena. All customers desire rate reductions and over time they will all come to value choice.

Prior to the stranded investment issue being set for hearing in December of last year, I held a number of meetings with utilities, consumer groups, new entrants and other interested citizens to offer a plan for resolving some of the contentious issues associated with our efforts to deregulate the market. I offer the following proposal as an example of what I believe can be done to resolve the issue of stranded investment, and finalize a phased-in methodology.

The proposal is a skeleton proposal and touches on only three issues. It addresses how we phase in competition, how we resolve stranded investment and touches on the solar portfolio. This is meant only to convey an approach which I believe is simple, avoids litigation, gives time for all parties to understand the market as well as eliminate costly and prolonged regulation to determine year by year, relative levels of stranded investment for each Arizona utility.

The best part of the proposal is a guarantee of four years of real rate reductions for Arizona consumers coupled with an up-front resolution of the stranded investment issue.

The Proposal:

Beginning January 1, 1999-----Consumers with loads in excess of 1 megawatt would have access to competitive power. Consumers with usage levels less than 1 megawatt and therefore not eligible for open access would receive a one and one-half percent reduction in their rate.

Beginning January 1, 2000-----Consumers with loads in excess of 500 kilowatts of usage would have access to competitive power. Consumers not eligible for open access would receive a second rate reduction of one and one-half percent.

Beginning January 1, 2001-----Consumers with loads in excess of 150 kilowatts of usage would have access to competitive power. Consumers not eligible for open access would receive a third rate reduction of one and one-half percent.

Beginning January 1, 2002-----Consumers with loads in excess of 30 kilowatts of usage would have access to competitive power. Consumers not eligible for open access would receive a fourth rate reduction of one and one-half percent.

Beginning January 1, 2003-----All consumers eligible for open access.

Given this phase-in approach, affected utilities would have time to mitigate stranded investment. This proposal would allow the affected utilities to divest if the utility felt it could not properly mitigate a sufficient level of its stranded investment. The affected utilities would then be allowed to recover any market determined stranded investment over a period of not more than 10 years.

Finally, I too support a reasonable level of incentives to develop and enhance the use of solar in Arizona. I believe that the solar portfolio should be ramped up over the time line established for the transition to a competitive market place. In addition, it should recognize and allow as a credit against the requirement; the use of thermal heating which can be as much as 33% of the homeowners bill.

I will be offering amendments to the proposed rule that conform to the preceding paragraphs. I look forward to a healthy exchange of opinions at our next scheduled Open Meeting.

Sincerely,



Carl J. Kupasěk
Commissioner

CJK/bgm

cc: Commissioner Jennings
Paul Bullis
Ray Williamson
Docket Control